SYNOPSIS

Title of the thesis

A STUDY OF SOCIO ECONOMIC DEVELOPMENT OF WEAKER SECTION THROUGH MICROFINANCE: WITH REFERENCE TO RAJNANDGAON DISTRICT

INTRODUCTION

India lives in her 6, 38,345 villages with 24 crore poor engaged in micro enterprises. As per the Government of India's Ministry of Micro, Small and Medium Enterprises (MSES) Annual report 2012-2013, there are 361.76 lakhs (in number) micro enterprises in India. The credit needs and other financial services are provided to the rural masses in general and to the poor in particular through the rural financial markets comprising an unorganized sector consisting of commission agents, moneylenders, landlords, etc., and an organized sector consisting of pyramid type cooperative credit institution – broadly classified into urban credit cooperatives and rural credit cooperatives.

In order to enlarge the flow of credit to the hard-core poor, NABARD launched a scheme of organizing them in self-help groups (SHGs) and linking the SHGs with banks, in 1992. The scheme is broadly on the pattern devised by Bangladesh Grameen Bank. Under the scheme, poor, preferably the women are organized in SHGs and banks financing these SHGs for on lending to poor are eligible for concessional refinance from NABARD.

There are three distinct modes to route the credit to micro enterprises. While under the first mode, banks lend directly to the SHGs for lending to micro entrepreneurs. Under the second mode, banks provide loans to the NGOs for on lending to the SHGs and ultimately to micro entrepreneurs. Under the third mode, banks extend credit to the SHGs with the NGO as facilitator.

Microfinance is a form of financial development that has primarily focused on alleviating poverty through providing financial services to the poor. Most people think of microfinance, if at all, as being about micro-credit i.e. lending small amounts of money to the poor. Microfinance is not only this, but it also has a broader perspective which also includes insurance, transactional services, and importantly, savings. According to James Roth, "Microfinance is a bit of a catch all-term. Very broadly, it refers to the provision of financial products targeted at low-income groups. These financial services include credit, savings and insurance products. A series of neologisms has emerged from the provision of these services, name micro-credit, micro-savings and micro-insurance".

The Canadian International Development Agency (CIDA) defines microfinance as, "the provision of a broad range of financial services to poor, low income households and micro-enterprises usually lacking access to formal financial institutions"

Microfinance gives access to financial and non-financial services to low-income people, who wish to access money for starting or developing an income generation activity. The individual loans and savings of the poor clients are small. Microfinance came into being from the appreciation that micro-entrepreneurs and some poorer clients can be 'bankable', that is, they can repay, both the principal and interest, on time and also make savings, provided financial services are tailored to suit their needs. Microfinance as a discipline has created financial products and services that together have enabled low-income people to become clients of a banking intermediary.

The characteristics of microfinance products include:

- Little amounts of loans and savings.
- Short- terms loan (usually up to the term of one year).
- Payment schedules attribute frequent installments (or frequent deposits).
- Installments made up from both principal and interest, which amortized in course of time.
- Higher interest rates on credit (higher than commercial bank rates but lower than loan-shark rates), which reflect the labor-intensive work associated with making small loans and allowing the microfinance intermediary to become sustainable over time.

- Easy entrance to the microfinance intermediary saves the time and money of the client and permits the intermediary to have a better idea about the clients' financial and social status.
- Application procedures are simple.
- Short processing periods (between the completion of the application and the disbursement of the loan).
- The clients who pay on time become eligible for repeat loans with higher amounts.
- The use of tapered interest rates (decreasing interest rates over several loan cycles) as an incentive to repay on time. Large size loans are less costly to the MFI, so some lenders provide large size loans on relatively lower rates.
- No collateral is required contrary to formal banking practices. Instead of collateral, microfinance intermediaries use alternative methods, like, the assessments of clients' repayment potential by running cash flow analyses, which is based on the stream of cash flows, generated by the activities for which loans are taken.

LITERATURE REVIEW

The basic idea of microfinance is to provide credit to the poor people who otherwise would not have access to credit services. Micro-credit programme extend small loans to very poor people for self-employment projects that generate income and allow them to take care for themselves and their families. This programme is working in many developing countries. There is no dearth of literature related to microfinance. In order to find the impact of microfinance programme, impact assessment studies have been done by many authors in different countries like Bangladesh, India, Pakistan, Nepal, Thailand, Ghana, Rwanda, Peru and many other countries of South Asia and Africa. The literature on microfinance offers a diversity of findings relating to the type and level of impact of the programme. There are various studies which confirm that microfinance programme has a significant positive impact in increasing employment and reducing poverty. A number of studies show that the participant households enjoy higher standard of living as compared to the non-participants. The programme reduces consumption as well as income vulnerability among its beneficiaries. Some of the studies also confirm that the

programme is helpful in attaining millennium development goals by reducing poverty, hunger, infectious diseases and through women empowerment. There are a number of studies which explain that participation in the programme has led to greater levels of women empowerment in terms of increase in knowledge, self confidence, economic, social and political awareness, mobility, development of organisational skills etc.

Sheokand (2000) discussed the evolution of Indian banking and its failure to provide credit facilities to poor people. NABARD started Self Help Group – Bank Linkage Programme in 1992, which was considered as a landmark development in banking with the poor. It was observed that Regional Rural Banks' security-oriented individual banking system was replaced by the delivery of credit to focused groups. According to him the government sponsored programmes had occupied much of the economic space but did not achieve the objective of alleviating poverty. Self Help Group- Bank Linkage Programme had been proved very successful for the socioeconomic empowerment of hard core poor, providing financial services to them and preparing them to take up economic activities for poverty alleviation. Although this programme was not a panacea for the problems of rural poverty, yet it had the potential for becoming a permanent system of rural lending in the country with full participation from the formal banking system and without any interference from the government.

Gurumoorthy (2000) explained the Self Help Group (SHG) as a viable alternative to achieve the objectives of rural development and to get community participation in all rural development programmes. It was an organised set up to provide micro-credit to the rural women on the strength of the group savings without insisting on any collateral security for the purpose of encouraging them to enter into entrepreneurial activities and for making them enterprising women.

Rutherford (2000) and Armendáriz & Morduch (2005) explained the difference between microfinance and micro-credit. Micro-credit referred specifically to small loans given to the poor people but microfinance was a broader term embraced efforts to collect savings from low-income households, provide consumption loans and insurance along with micro-credit. It also helped in distributing and marketing clients' output. Microfinance embraced a range of financial

services that seek to meet the needs of poor people, both protecting them from fluctuating incomes and other shocks and helping to promote their incomes and livelihood**.**

Fisher and Sriram (2002) explained that the financial sector developed in India by the end of 1980s was largely supply and target driven. The government sponsored poverty alleviation schemes experienced poor recovery rates with misutilisation of 26 subsidy and lack of observation of repayment ethics. The repayment rate under the Integrated Rural Development Programme (IRDP) remained less than one-third and the programme created about 40 million bank defaulters. In 1989, with the first official loan waiver, credit discipline was thrown to the wind. This created cynicism amongst bankers about the credit worthiness of poor people. Also, a dominant perspective was develop that the finance for rural poor people was a social obligation and not a potential business opportunity. Gaiha et al. (2001) in a study concluded that larger sections among the poor were not covered in the two major anti-poverty programmes (Rural Public Works and IRDP) in India and the impact of these programmes was limited due to their gross mistargeting and selection of non-poor as participants.

Yunus (2006) in a study explained the differences between Grameen Bank and conventional banks. He explained that the Grameen Bank methodology was almost the reverse of the conventional banking methodology. Conventional banking was based on the principle that the more you have, the more you get. As a result, more than half of the population of the world was deprived of financial services of the conventional banks as conventional banking was based on collateral, focused on men, located in urban centers and owned by rich with the objective of profit maximisation. On the contrary, the Grameen Bank started with the belief that credit should be accepted as a human right, where one who did not possess anything get the highest priority in getting a loan. Grameen Bank methodology was not based on the material possession but on the potential of a person. Grameen Bank, which was owned by women, had the objective of bringing financial services to the very poor, particularly women to help them fight poverty, stay profitable and financially sound. Yunus described poor people as a ‘human bonsai’. They were poor because society had denied them the real social and economic base to grow on. Grameen Bank’s effort was to move them from the flowerpot to the real soil of the society.

Hossain (1988) conducted a study regarding impact assessment of Grameen Bank's microfinance programme in Bangladesh. The study took a comparison between the Grameen Bank members and eligible non-participants in Grameen Bank situated villages. It was found that participation in Grameen Bank's microfinance programme had a positive impact on various economic activities of members and helped in alleviating poverty. The average household income of Grameen Bank members was 43 per cent higher than that of target non-participants, and 28 per cent higher than eligible nonparticipants Grameen Bank members spent 8 per cent more per capita on food and 13 per cent more on clothing than target non-participants and 35 per cent more on food and 32 per cent on clothing than target households in comparison villages.

Pitt and Khandker (1998) had studied the impact of microfinance on poverty in Bangladesh. Data was collected through a survey in 1991-92 containing 1798 households (1538 participants and 260 non-participants) in three Bangladeshi programmes, i.e. microfinance programmes of the Grameen Bank, Bangladesh Rural Advancement Committee (BRAC) and of Bangladesh Rural Development Board (BRDB). For finding the impact borrowers were compared to the people in non-programme villages. Results showed that for every Taka (currency of Bangladesh) lent to a female member, the consumption increased by 18 Taka and for men this figure was 11 Taka. Further, the study showed that the poverty rate of BRAC members fell by around 15 per cent for moderate poor and 25 per cent for ultra poor. Similar results were found for the other two programmes. This rate of poverty reduction appeared to decline with the duration of membership and with cumulative loan size. Thus, the reduction of level of poverty was variable and declined with the passage of time.

Morduch (1998) in his study investigated a cross-section data of nearly 1800 households in Bangladesh served by microfinance programmes of the Grameen Bank, BRAC and BRDB in 1991-92. The sample also included a control group of households in areas not served by any microfinance programme. There was strong evidence available that micro-credit contributed to reducing household vulnerability. Participant households had substantially and significantly lower variation in consumption and labour supply across seasons relative to the control groups. The study showed that consumption variability was 47 per cent lower for eligible Grameen

households, 54 per cent lower for eligible BRAC households and 51 per cent lower for eligible BRDB households as compared to a control group.

Khandker et al. (1998) reported substitutions from wage employment to selfemployment in the survey of 29 districts (thanas) in Bangladesh undertaken for the World Bank and the Bangladesh Institute of Development Studies (BIDS). They concluded that microfinance as delivered by Grameen Bank, BRAC and Rural Development-12 (RD-12) accelerated the shift from wage employment in the informal rural sector to self-employment among the poor participants. But they added that absence of technological development had slowed down the overall increase in production and employment.

International Labour Organisation (ILO) (1998) in its different projects concluded that microfinance had successfully increased micro-enterprises and self-employment of the clients. An ILO survey of 46 Microfinance Institutions (MFIs) in 24 different countries showed that 74 per cent of MFIs had "the self-employed" as clients, leaving it open whether these had some wage labourers or not, 17 per cent had primarily self-employed in their clientele and just 4 (9 per cent) had only a minority of self-employed amongst their clients.

OBJECTIVES OF STUDY

The present study attempts to examine the employment and income generation. It examines how far the programme has helped in raising the incomes and levels of living of the rural poor and in enabling them to cross the poverty line.

1. To examine the impact of microfinance on income, income inequality and poverty alleviation among the participant households.
2. To study the impact of microfinance in generating employment opportunities.
3. To determine the status of microfinance in the Rajnandgaon district of chhatisgarh.
4. To study impact of microfinance in poverty alleviation of rural area of Rajnandgaon district.

5. To analyse the role of microfinance on improving the standard of living of people of Rajnandgaon district.
6. To analyse the impact of microfinance in income generation.
7. To study the problems in implementation of microfinance scheme in district of Chhattisgarh
8. To study prospects for microfinance in Chhattisgarh
9. To study the role of SHGs in the rural development
10. To examine the extent of involvement of women in SHGs

HYPOTHESIS

The following hypotheses are proposed and tested in the course of this study;

1. Microfinance increases the level of income and reduces income inequalities among the participant households.
2. Microfinance reduces the level of poverty among the participant households.
3. Very poor borrowers get more benefits than already better-off borrowers.
4. As Self-help Groups grow older, the members of the groups are more benefited as compared to the new entrants.
5. Microfinance helps in increasing the level of employment of the programme participants.
6. Microfinance has a significant effect on asset acquisition and savings of participants in Rajnandgaon District

RESEARCH METHODOLOGY

A descriptive survey design will be adopted. Both qualitative and quantitative techniques will be applied. Descriptive research design is connected with providing solutions to the problems. This design would be found to be appropriate for exploring the effect of micro-finance services on the poverty alleviation, living standard, employment and income generation in the Rajnandgaon district (Chhattisgarh)

Target population

The population of this study comprised micro-finance services beneficiaries of Rajnadgaon district.

Sampling Plan

The District Rajnandgaon came into existence on 26th Jan' 1973, by way of division of District Durg. The Rajnandgaon was originally named as Nandgram. As per 2011 census, 82.27 % population of Rajnandgaon districts lives in rural areas of villages. The total Rajnandgaon district population living in rural areas is 1,264,621 of which males and females are 626,212 and 638,409 respectively. The blocks of Rajnandgaon, Churiya, Dongargaon, Dongargarh, Khairagarh, Manpur, Mohala, Chowki, Chuikhadan.

Sample Size

The sample of 500 responded will be selected from district which consists nine blocks. Composition of responded will be selected from each block. The responded are the beneficiaries of microfinance activity.

Sampling Technique

Convenience sampling will be used for this study to target the targeted sample size.

Data type and Collection Method and Instruments

Primary and secondary data were used. Structured and Semi structured questionnaire and interview were used to obtain information from the sample. The researcher gathered secondary electronic and hard data from several books, research literatures, articles and journals. Internet sources were also used.

Data Analysis and Presentation

Descriptive analysis will be used to summarize the characteristics of the respondents. The Quantitative data will be analysed by use of both the descriptive and inferential statistics. The descriptive statistics involved the use of mean, frequency, percentages and standard deviation. In order to check the relationship between the variables the study will use the correlation coefficient

and the Chi square for testing relative differences in the effectiveness of the microfinance services. Qualitative data will be analysed by use of themes. The researcher utilized tables and bar graphs to present the findings.

EXPECTED OUTCOMES

1. The impact of micro finance programme especially has been effective in making positive social change to all members.
2. The participation in microfinance programme lead to improvement in financial assets, enterprise assets, household physical assets, human assets, social assets, etc
3. Microfinance programme generates self-employment opportunities in rural areas. The programme participants utilise bank loans to start small business activities and generate income
4. Credit plus services of microfinance has positively correlating with the improving in household expenditure, income, assets and employment.
5. Microfinance has contributed in improving the access to credit for consumption and productive purposes.
6. The microfinance programme has created the habit of thrift and savings in the members. The members of the SELF HELP GROUP promote saving habits among the people. These saving along with the micro credit obtained from banks are invested in setting up small business units or other requirements of existing units.
7. The microfinance programme has not only helped in increasing the number of persons employed but also increased their employment days per annum.
8. Microfinance interventions have also been shown to have a positive impact on the education of clients' children. The impact of microfinance interventions on health and education, nutritional indicators seem to improve.
9. Having access to microfinance services has led to an enhancement in the quality of life of clients, an increase in their self-confidence, and has helped them to diversify their livelihood security strategies and thereby increase their income.
10. Microfinance has promoted employment opportunities for the large number of unemployed and housewives. Thus, microfinance services created new hopes in the lives

of the poor and uplifted them from the poverty though improving the employment. Microfinance results in generation of employment Infect, it promotes self employment through promotion of micro-credit.

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The Synopsis is hereby forwarded to the Research Degree Committee for Kind Approval

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